WHAT'S IN THE FISCAL CLIFF DEAL?

- Raises tax rates on individuals/households earning \$400k/\$450k or more
- Makes Bush-era tax cuts permanent for all other taxpayers
- •Raises tax rates for capital gains/dividends from 15% to 20% for same incomes
- •Raises estate tax from 35% to 40%, with first \$5M exempted
- Phases out personal exemptions and limits itemized deductions for individuals/households earning \$250k/\$300k



WHAT'S IN THE FISCAL CLIFF DEAL?

- Permanently indexes AMT to inflation
- Extends American Opportunity Tax Credit, Child Tax Credit, and Earned Income Tax Credit for five years
- Preserves "extenders," includes several education tax breaks
- Allows temporary 2% payroll tax cut to expire
- Extends unemployment insurance for one year
- Extends Medicare "Doc fix" for one year



WHAT'S IN THE FISCAL CLIFF DEAL?

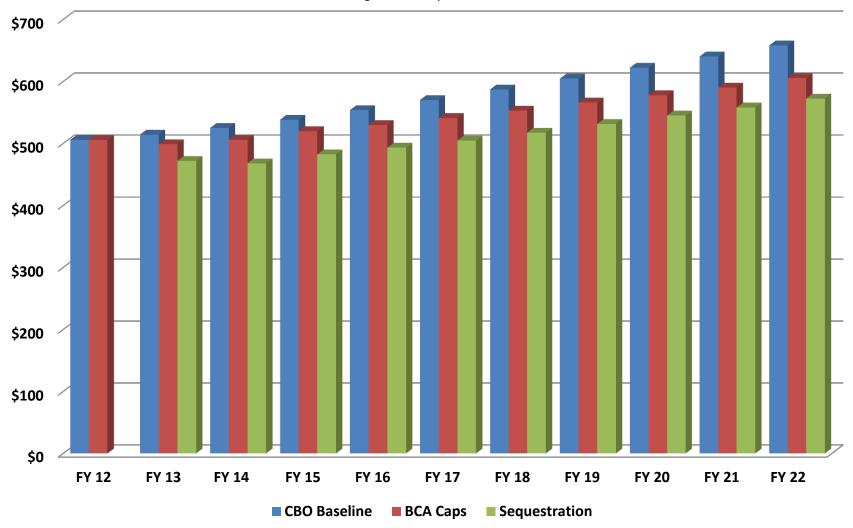
- 2 month delay in sequester
- \$24 billion reduction paid for with \$12 billion in revenues and \$12 billion in spending cuts
- \$6 billion in defense cuts and \$6 billion in NDD cuts
- Reduces across-the-board cut from 8.2% to 5.9%.





Nondefense Discretionary Funding Caps After HR 8

Budget Authority in Billions



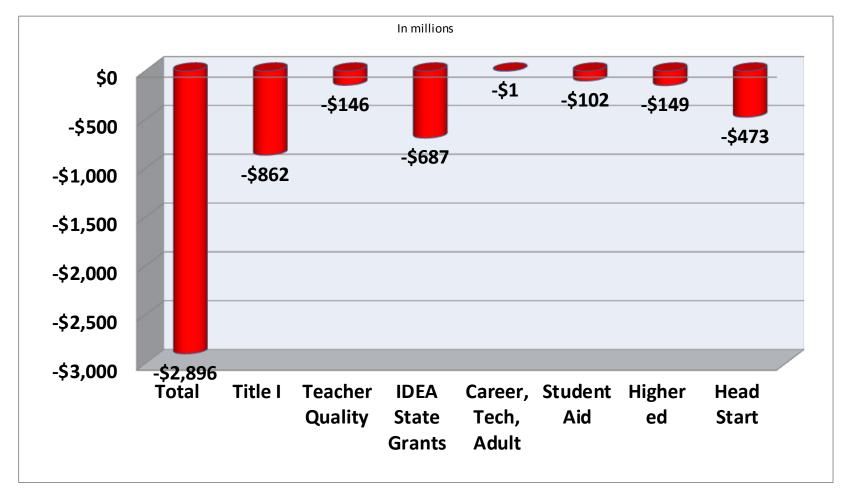
Sources: CEF Calculations based on An Update to the Economic and Budget Outlook: FiscalYears 2012 to 2022, CBO, August 2012; OMB Report Pursuant To The Sequestration Transparency Act Of 2012, September 2012; the American Taxpayer Relief Act of 2012, January 2013

Sequestration = Largest Education Cuts Ever!

- FY 13 = fixed percentage across-the-board cuts.
 - CEF projects a cut of 5.9% = \$2.9 billion for ED.
 - Head Start cut \$473 million.
 - Pell grants exempt in first year.
- FY 14-21 will not be ACB cut; further lowers discretionary caps
 - Squeezes education \$; Pell no longer exempt.

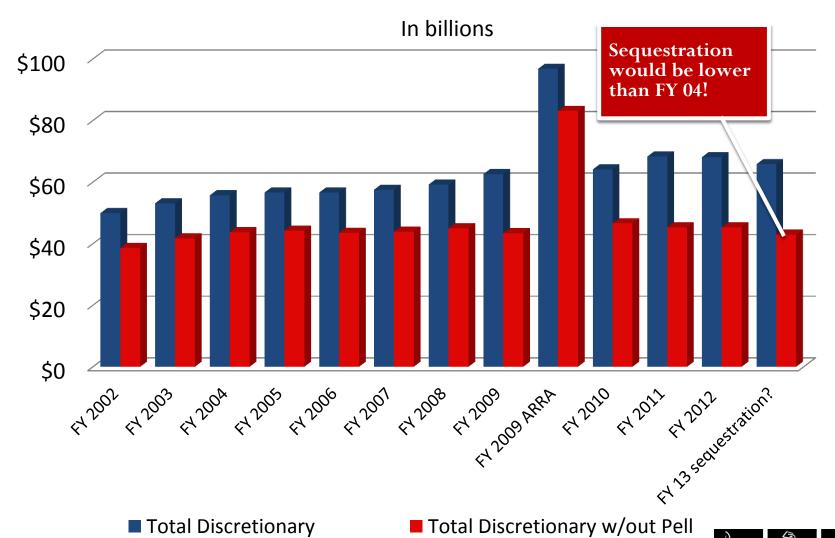


Impact of Sequestration in FY 13





Education Department Funding



COMMITTEE FOR EDUCATION FUNDING

OUTLOOK - Multiple Cliffs

- Debt Ceiling reached by end of February
 - Republicans demanding more cuts
- Sequester set to hit on March 1
 - Repealing entire sequester costs \$960 billion.
 - White House wants 50% new revenues/50% spending cuts
- Six-month CR expires on March 27, 2013
 - Provides small 0.612% across-the-board increase
- Sequester cuts if they happen will be from CR levels.
 CR has no effect on the sequester.



2012 Debt Limit Crisis Could Lead to Default

Dec. 31, 2012

Jan. 1, 2013

February 2013

March 2013

Debt Limit Reached

U.S. hits \$16.4T debt limit; U.S. Treasury Secretary takes "extraordinary measures" to avoid default

Congress Negotiates

Congress debates how to reduce the national debt and whether to raise the debt ceiling

Congress Passes American Taxpayer Relief Act

Sequester delayed by two months; Congress postpones debt reduction deal and negotiations to raise the debt ceiling

Possible Default on U.S. Debt Obligations

Failure to reach a debt reduction deal or raise the debt ceiling could cause the U.S. to default on debt obligations, throwing financial markets into a tailspin